PIERLUISI INTRODUCES BILL IN CONGRESS TO PREVENT UNREASONABLE SUBSIDIES IN THE RUM INDUSTRY

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SAN JUAN, PUERTO RICO- The Resident Commissioner in Washington, Pedro Pierluisi, introduced legislation today that seeks to promote the original intent of the federal Rum Tax Cover-over Program, by establishing a rule that would prohibit Puerto Rico and the U.S. Virgin Islands from using the funds they receive under the program to provide "unreasonable" subsidies to rum producers.

The bill is co-sponsored by José Serrano (D-NY), Nydia Velázquez (D-NY), Luis Gutiérrez (D-IL), along with Joseph Crowley (D-NY), a member of the House Committee on Ways and Means, which has primary jurisdiction over tax issues.

The bill was developed in conjunction with the Puerto Rico Department of Economic Development and Commerce and the Puerto Rico Industrial Development Company (PRIDCO).

The Resident Commissioner's legislation would amend the relevant section of the federal Internal Revenue Code to create a rule prohibiting Puerto Rico and the USVI from using cover-over funds to provide unreasonable subsidies to rum producers.

One provision in the bill would create a categorical rule that a subsidy in excess of 10% of cover-over funds is, by definition, unreasonable. A second provision states that a subsidy in an amount less than 10% may be found unreasonable if the U.S. Department of Treasury concludes that it is "excessive" in relation to the total amount of cover-over funds and that it has the effect of encouraging a rum maker to move production from one territory to the other territory. If the Treasury Department determines that one territory has provided an unreasonable subsidy, it is authorized to distribute cover-over funds destined for that territory to the other territory instead.

“The purpose of the cover-over program is, and has always been, to help the two territories provide for the general welfare of their residents and to promote broad-based economic development. The program was not designed to enable a territory to provide overly-generous subsidies to rum makers. This bill will reaffirm the laudable goals of the cover-over program by precluding the territories from using cover-over funds to provide unreasonable subsidies to their rum producers," Pierluisi explained.

The director of PRIDCO, Javier Vázquez, explained that rum produced in Puerto Rico and the USVI is subject to the same federal tax as the rum produced in the mainland United States, namely $13.50 per proof-gallon. Under current law, the federal Treasury Department returns, or "covers over," $13.25 of that amount to the territories.

"Each year, Puerto Rico uses approximately 94% of its covered-over funds to promote economic development, including land conservation and environmental protection; to provide money to the Trust for Science and Technology; and to develop major projects through the Infrastructure Financing Authority," said Vázquez.

"Only about 6% of the cover-over that Puerto Rico receives goes towards to the rum industry, mostly for marketing and product promotion. In other words, Puerto Rico has always been very careful and conscientious about using funds to promote broad-based economic development, in a way that is consistent with the overarching purpose of the federal program," said Vázquez.

For his part, the Secretary for Economic Development, José Pérez Riera, expressed concern that the program would be "subject to attack" in Congress if the territories did not use their funds in a prudent and justified manner.

"The Government of Puerto Rico has always promoted the rum produced on the Island and it will continue to support the Puerto Rican rum industry in a fair and reasonable way," Pérez Riera said.